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E.O. 12958: N/A
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SUBJECT: COSTA RICA AND CAFTA-DR

REF: (A) SAN JOSE 02008
(B) SAN JOSE 01828

1. (SBU) Summary. President Pacheco continues to say he will send the United States-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) to the Legislative Assembly. The question remains "When?" Nicaragua's recent passage of CAFTA-DR has brought increased focus by the media and interested parties on the lack of movement on ratification of the agreement in Costa Rica, with CAFTA-DR proponents stating that each day that passes without moving forward on CAFTA-DR, Costa Rica suffers economically and loses business to the other countries that have already ratified the agreement. Opponents claim that Costa Rica should continue the national dialogue on this issue and the other countries' decisions to ratify the agreement should have no effect on Costa Rica's ratification process. Some point out with pride that Costa Rica has always benefited from taking a different path than the rest of Central America. End Summary.

2. (SBU) After the Nicaraguan Congress passed CAFTA-DR on October 10, 2005, Costa Rica became the last signatory country to not have yet ratified the agreement. More notable is the fact that President Pacheco continues to delay in sending the agreement to the Legislative Assembly to start the lengthy ratification process (Ref A). His recent comments about when he will send CAFTA-DR to the legislature have been vague, occasionally inconsistent, and always noncommittal. Based on recent statements made by President Pacheco, he may send CAFTA-DR to the Assembly as early as October 20 when he returns from the 15th Ibero-American Summit in Salamanca, Spain, or he may wait until the sure-to-be-contentious bills to strengthen the Costa Rican Institutes of Electricity (ICE) and Insurance (INS) are introduced and passed by the Assembly. The latter would surely mean that CAFTA-DR would not be submitted before the next Administration takes office in May 2006. The most recent press statement from the Office of the President states that he will submit CAFTA-DR to the Assembly at the same time the bill to strengthen ICE is submitted.

3. (SBU) Reportedly the bills to strengthen ICE and INS are under review by the Administration and will be submitted to the Assembly within the next several weeks. The Administration is careful to not give exact dates as prior submission time period estimates have come and gone. Another important legislative project that the GOCR says it will submit to the legislature is the Telecommunications Act which should propose laws to comply with the telecommunications portion of CAFTA-DR - to gradually open the telecommunications market to competition. All of these legislative projects and CAFTA-DR will be intensely debated in the Assembly and because of the Costa Rican legislative process, CAFTA-DR likely will require at least six months or more to ratify.

4. (SBU) To date, the only CAFTA-DR-related legislation that has been submitted to the Assembly is that associated with funding the complementary agenda to CAFTA-DR. This concerns Assembly approval for three loans from the Inter-American Development Bank, the World Bank, and the Central American Bank for Economic Integration (Ref B) to fund initiatives to increase the competitiveness of Costa Rican businesses and improve infrastructure.

COMMENT

5. (SBU) The situation in Costa Rica regarding ratification of CAFTA-DR has not changed since Nicaragua passed the agreement. Pacheco may send the agreement to the Assembly as early as the end of October or he may wait

until the Assembly passes the still-to-be-submitted proposed laws to strengthen ICE and INS. Costa Rica, arguably, has the most work to do with regard to the changes that need to be made not only to comply with CAFTA-DR but also to make fundamental changes to ensure Costa Rica can take advantage of the opportunities offered by the agreement. Regardless of when he sends CAFTA-DR to the Assembly, the Costa Rican process to approve CAFTA-DR will be lengthy and it is very likely that the agreement and associated legislative projects will not be approved until sometime after the next President and Legislative Assembly members take office in May 2006.

FRISBIE